

Message Text

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ACTION SS-25

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R 201342Z MAY 77
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TO SECSTATE WASHDC 0646
INFO AMEMBASSY BONN
AMEMBASSY COPENHAGEN
AMEMBASSY HELSINKI
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY REYKJAVIK
USMISSION USNATO

C O N F I D E N T I A L SECTION 1 OF 2 STOCKHOLM 2170

EXDIS

E.O. 11652: GDS
TAGS: PINT, ECON, SW
SUBJECT: UNCERTAINTIES IN SWEDEN

1. SUMMARY: THE CUSTOMARY IMAGE OF SWEDEN--STABLE, PRODUCTIVE, WELL-OFF--MAY BE GETTING OUT OF DATE. THE TOUGHEST LABOR NEGOTIATIONS IN MANY YEARS UNDERLINE THE DEPTH OF ECONOMIC PROBLEMS, WHILE IN POLITICS THE GOVERNING COALITION SHOWS LITTLE SIGN OF OVERCOMING ITS SPLIT ON NUCLEAR ENERGY. STILL GOING WELL ON PAST MOMENTUM, SWEDISH SOCIETY IS RELUCTANT TO FACE UP TO CHANGES THAT MAY BE REQUIRED IF STANDARDS OF RECENT YEARS ARE TO BE MAINTAINED. IF STANDARDS FALL, NO ONE KNOWS WHAT THE PSYCHOLOGICAL AND ECONOMIC/POLITICAL RESULTS MAY BE. WHILE THERE IS STILL GOOD REASON FOR CONFIDENCE IN SWEDEN, IN THE EMBASSY'S VIEW, US POLICY-MAKERS SHOULD BE AWARE THAT THERE ARE MANY
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LARGE UNCERTAINTIES PRESENT, AND OLD STABILITIES ARE NOW SUBJECT TO STRESS. END SUMMARY.

2. THIS MESSAGE IS A KIND OF POSTSCRIPT TO OUR ANNUAL ASSESSMENT, TAKING A SOMEWHAT SOMBER VIEW AND LOOKING AT THE UNCERTAINTIES IN THE PRESENT SITUATION WHICH COULD CAST SHADOWS ON SWEDEN'S FUTURE. THE PROTRACTED

WAGE NEGOTIATIONS, NOW IN A CLIMATIC STAGE WITH SOME STRIKES TAKING PLACE AND OTHERS THREATENED, ILLUSTRATE-- NO MATTER HOW THEY EVENTUALLY TURN OUT, FOR THE WHOLE PROCESS STARTS AGAIN IN JANUARY--THE STRAINS WITHIN THE SWEDISH ECONOMY. THE EMBASSY HAS REPORTED ON THE ECONOMY AMPLY, AND THERE IS NO NEED TO REPEAT; BUT THE CURRENT FACT IS THAT THE LONDON SUMMIT BROUGHT SMALL COMFORT TO THE SWEDES. HAVING RIDDEN OUT THE WORLD RECESSION THROUGH BUILDING INVENTORIES, AND WITH VERY LARGE WAGE INCREASES AND VERY LITTLE UNEMPLOYMENT, THE SWEDES ARE NOW PAYING THE PRICE. THEY KEEP HOPING FOR A FASTER WORLD UPTURN THAN IS HAPPENING. THEIR HOPES THAT THE CARTER ADMINISTRATION'S ECONOMIC PROGRAM WOULD HELP SWEDEN ARE FADING, AND INCREASINGLY THEY ARE FORCED TO FACE THE STRUCTURAL PROBLEMS IN THE SWEDISH ECONOMY. (THE VOLVO-SAAB MERGER IS AN INDICATION OF THIS INTROSPECTION). BUT SINCE WELFARE AND FULL EMPLOYMENT ARE SACRED HERE, AND SINCE SWEDISH PRICES REMAIN SKY-HIGH, THE NEED FOR CHANGES--INCLUDING A CUT IN CONSUMPTION--PRESSES. NO ONE SEEMS TO HAVE A CLEAR IDEA WHAT WILL HAPPEN, BUT SOMETHING SURELY HAS TO GIVE.

3. ON THE POLITICAL FRONT, THE EMBASSY MUST CONFESS TO SOME DISAPPOINTMENT IN THE FALLDIN COALITION. OF COURSE IT HAD BAD LUCK TO COME IN JUST AS THE BILL CAME DUE FOR PAST ECONOMIC PERFORMANCE, AND THIS MOSTLY EXPLAINS ITS POOR SHOWING AT THE POLLS, WHICH ARE NOT IMPORTANT NOW ANYWAY. BUT THE TROUBLE GOES DEEPER. CONFIDENTIAL

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WHILE THE NEW GOVERNMENT GAVE MANY SWEDES A GREAT BOOST JUST BY SHOWING THAT AN ALTERNATIVE TO THE SOCIAL DEMOCRATS WAS POSSIBLE, AND WHILE MANY ABLE MEN ARE IN THE GOVERNMENT, THE RECORD HAS BEEN IN GOOD PART CONFUSION AND LACK OF CLEAR DIRECTION. THE THREE COALITION PARTIES DO NOT SEEM AT ALL SURE THEY CAN CONTINUE TO WORK TOGETHER, AND MUCH MANEUVERING GOES ON WITH AN EYE TO FUTURE REALIGNMENT OF SWEDEN'S FOUR MAJOR PARTIES. THE CENTER PARTY'S LEADERSHIP HAS NOT BEEN IMPRESSIVE, AND ITS CONTINUED EMPHASIS ON MOVING AWAY FROM A NUCLEAR FUTURE FOR SWEDEN SEEMS TO HAVE WITHIN IT THE SEEDS OF DESTRUCTION FOR THE COALITION. THIS MAY TURN OUT NOT TO BE TRUE, BUT THAT IS THE WAY THINGS ARE HEADED. THE POSSIBILITY OF FALLDIN STEPPING DOWN IN THE FALL OF 1978 OVER THE NUCLEAR ISSUE IS REAL. IF SO, SWEDEN WOULD PROBABLY HAVE A PERIOD OF CARETAKING AND MANEUVERING LEADING TO THE FALL 1979 ELECTIONS. WHATEVER HAPPENS OVER THE NEXT FEW YEARS, THE FEELING NOW OF MAJOR UNCERTAINTY IN THE POLITICAL REALM IS NOTEWORTHY.

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C O N F I D E N T I A L SECTION 2 OF 2 STOCKHOLM 2170

EXDIS

4. ON THE PSYCHOLOGICAL PLANE, SWEDES WERE FIRST
HIT WITH THE FIRST TRUE CHANGE OF GOVERNMENT IN 44
YEARS; THEN BY VERY BAD ECONOMIC NEWS; THEN BY THE
WORST LABOR STRIFE IN YEARS; AND MORE CHANGE MAY WELL
BE COMING. NO ONE CAN REALLY BE SURE AT THIS POINT
HOW FURTHER CHANGE MAY AFFECT THE SWEDISH OUTLOOK,
SWEDISH SOCIETY, AND ULTIMATELY SWEDISH PERFORMANCE
IN THE WORLD ARENA. THE SWEDES ARE A STAIID AND STABLE
PEOPLE, AND THEY MAY SIMPLY BUCKLE DOWN AND OVERCOME
THE EFFECT OF CHANGE. OR MORE FAR-REACHING ADJUSTMENTS
COULD TAKE PLACE. ONE CANNOT BE SURE.

5. AS REGARDS US INTERESTS, SWEDEN'S PLACE IN A
STABLE EUROPE AND IN A FIRM NORTHERN STRATEGIC SITUATION
CALL FORTH OUR HOPE THAT THE SWEDES WILL MEET THEIR
NEED FOR CHANGE AND COME THROUGH STRONG AND STILL
PROSPEROUS. IN FACT WE THINK THEY WILL, ALTHOUGH
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POSSIBLY WITH SOME SERIOUS DISLOCATIONS ALONG THE WAY. THE IMMEDIATE POINTS FOR U.S. POLICY ARE:
(A) TO NOTE THAT SWEDEN IS NOT QUITE SO SOLID AS ITS SURFACE (AND ITS OLD REPUTATION) INDICATES; (B) TO BE AWARE THAT THE GOVERNMENT HAS SERIOUS PROBLEMS AND THAT WE COULD CONCEIVABLY BE DEALING WITH A DIFFERENT COALITION OR WITH A NEW SOCIAL DEMOCRATIC GOVERNMENT WITHIN A COUPLE OF YEARS; (C) TO RECOGNIZE THAT WITH SWEDISH INTERESTS AFFECTED SO GREATLY BY US DECISIONS, WE MAY EXPECT CONTINUED SWEDISH REPRESENTATIONS IN SUCH AREAS AS TRADE (ABOUT POLICIES THEY MAY TAKE TO BE PROTECTIONIST) AND NUCLEAR ENERGY. BEARING IN MIND THE STRESSES THE SWEDES WILL BE UNDER FOR THE NEXT SEVERAL YEARS, WE WOULD BE WELL ADVISED TO KEEP IN MIND THEIR SENSITIVITIES AND, AS MUCH AS OUR INTERESTS ALLOW, TAKE ACCOUNT OF THEIR PROBLEMS IN OUR POLICIES. A STRONG AND STABLE SWEDEN REMAINS IN THE US INTEREST, BUT IT MAY NOT BE SO EASY FOR SWEDEN TO STAY THAT WAY AS IT HAS BEEN IN THE PAST.
PERRY

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